

## Message Text

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PAGE 01 BELGRA 00653 310350Z

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

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E.O. 11652: N/A

TAGS: EFIN, EGEN, YO

SUBJECT: ARE YUGOSLAV ENTERPRISES TO BE PERMITTED ISSUE EQUITY  
SECURITIES?

REF : A.BELGRADE (75) 6565 B. BELGRADE NO 657

1. SUMMARY: PROPOSED BANKING LAW (REFTEL A) AND OTHER NEW FINANCIAL  
LEGISLATION HAVE LED TO SPECULATIVE ARTICLES IN WESTERN PRESS  
AND NUMEROUS INQUIRIES FROM US BANKERS ABOUT ESTABLISHMENT  
HERE OF "SOCIALIST STOCK EXCHANGE" AND POSSIBLY ISSUANCE OF  
"EQUITY SECURITIES." THIS HAS PROMPTED EMBASSY TO FOLLOW UP  
ON INFORMATION IN REFTEL AND CONCENTRATE SPECIFICALLY ON ISSUE  
OF SECURITIES. IN BRIEF, NO STOCK EXCHANGE IS PLANNED AND NO  
EQUITY STOCK IS TO BE ISSUED. END SUMMARY.

2. DEPARTMENT MAY WISH TO DRAW ON FOLLOWING INFORMATION IN  
ANSWERING QUESTIONS THIS SUBJECT.

A. YUGOSLAV ENTERPRISES AND SOCIAL/POLITICAL COMMUNITIES CAN  
ISSUE SECURITIES AND HAVE HAD THE LEGAL AUTHORITY TO DO SO

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PAGE 02 BELGRA 00653 310350Z

SINCE THE DECEMBER 1971 LAW ON SECURITIES, ALTHOUGH SOME  
ENTERPRISES ACTUALLY HAD DONE SO

EVEN BEFORE. THESE SECURITIES ARE BASICALLY LONG-TERM BONDS ENTITLING HOLDER TO RETURN OF CAPITAL PLUS INTEREST WITHIN A FIXED PERIOD. IN POST YEARS, THE FEDERATION HAS ISSUED BONDS TO FINANCE BUDGET DEFICITS, REPUBLICS HAVE ISSUED THEM TO SUPPORT PRIORITY DEVELOPMENT PROJECTS SUCH AS BELGRADE-BAR RAILWAY AND ENTERPRISES (CRVENEVA ZASTAVA, TIGAR, AND YUGOSLAV RAILROADS) HAVE ISSUED BONDS TO FINANCE DEVELOPMENT PROGRAMS. YUGOSLAV BANKERS REFER TO THESE BONDS AS "LONG-TERM SECURITIES." THEY INVOLVE NO OWNERSHIP OR EQUITY AND ARE NOT ELIGIBLE FOR REDISCOUNT BY NATIONAL BANK OF YUGOSLAVIA.

B. IN ACCORDANCE WITH LAW ON ENSURING PAYMENT AMONG USERS OF PUBLIC FUNDS (REFTEL B), YUGOSLAV ENTERPRISES WILL NO LONGER UNDERTAKE TRANSACTIONS ON "INVOICED SALES" BASIS. INSTEAD, ENTERPRISES WILL BE REQUIRED TO PAY IN CASH OR USE ONE OF FOUR CREDIT INSTRUMENTS INVOLVING SOME TYPE OF BANK GUARANTEE. THESE FOUR CREDIT INSTRUMENTS ARE REFERRED TO AS "SHORT-TERM SECURITIES" AND EVENTUALLY WILL BE AVAILABLE FOR DISCOUNT AND REDISCOUNT BY COMMERCIAL BANKS AND NATIONAL BANK RESPECTIVELY. IN ADDITION TO PURE FINANCIAL IMPORTANCE OF THIS PROCEDURE, YUGOSLAVS BELIEVE IT SERVES POLITICAL AND PHILOSOPHICAL AIM OF BRINGING MONETARY CREATION CLOSER TO WORKING CLASS BY BASING MONEY ISSUANCE IN PART ON ACTUAL BUSINESS TRANSACTIONS.

C. YUGOSLAVS DO NOT PLAN SECONDARY MARKET MECHANISMS FOR EITHER LONG-OR SHORT-TERM SECURITIES. WHEN THEY USE PHRASE "MARKET FOR SECURITIES", THEY REFER TO POSSIBILITY OF PURCHASE OF THE SECURITY THROUGH A BANK IN THE PRIMARY PHASE. THERE WILL BE NO MECHANISM TO PERMIT SPECULATION OR TRADE IN A SECONDARY STAGE AND THE SECURITIES ARE NOT MEANT TO BE TRADED BETWEEN BANKS AND/OR ENTERPRISES.

D. WHILE NO EQUITY SECURITY IS ENVISIONED AT THIS TIME FOR YUGOSLAVIA, BANKERS HERE ARE EAGER TO PROMOTE GREATER USE OF LONG-TERM SECURITIES AS METHOD OF RAISING DEVELOPMENT CAPITAL. ACCORDING TO BEOGRADSKA BANKA, AT PRESENT ONLY ABOUT 1.8 PERCENT OF GLOBAL INVESTMENT IS DERIVED FROM BOND ISSUES. TASK IS TO ATTRACT GREATER AMOUNT OF "PRIVATE" SAVINGS WHICH ACCOUNT FOR 38 PERCENT OF BANK DEPOSITS INTO BOND PURCHASES. PROBLEM HAS BEEN THAT FIXED INTEREST INVESTMENT HOLDS LITTLE LIMITED OFFICIAL USE  
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PAGE 03 BELGRA 00653 310350Z

ATTRACTION IN A SOCIETY WHERE INFLATION HAS EXCEEDED 20 PERCENT IN PAST TWO YEARS. TO MAKE BOND MORE ATTRACTIVE, SPECIAL BENEFITS ARE USUALLY ASSOCIATED WITH EACH ISSUE. FOR EXAMPLE, FEDERAL BONDS ENTITLE HOLDERS TO TAX EXEMPTIONS: TIGAR RUBBER PLANT IN PIROT PROVIDED EMPLOYMENT FOR RETURNING WORKERS WHO PURCHASED CERTAIN AMOUNT OF BONDS; IMT BELGRADE PROVIDED SPECIAL DELIVERY OF TRACTORS AND CREDIT TO FARMERS WHO PURCHASED BONDS, ETC. IN SUM, EVERY YUGOSLAV BANKER WE HAVE SPOKEN TO HAS STRESSED THERE IS NO VALID COMPARISON BETWEEN YUGOSLAVIA'S LONG- AND SHORT-TERM SECURITIES AND TRADITIONAL WESTERN EQUITY

ISSUES. YUGOSLAVIA MAY BE BEGINNING A PROCESS THAT WILL  
EVENTUALLY LEAD TO FURTHER EXPERIMENTATION WITH SECURITIES  
ISSUES, BUT IF SO, THEY ARE STILL A LONG WAY FROM WESTERN  
PRACTICE.  
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